



**COLONIAL PINE HILLS SANITARY DISTRICT**  
**FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT**  
**DECEMBER 31, 2013 AND 2012**



**Ketel Thorstenson, LLP**  
Certified Public Accountants/Business & Personal Consultants

810 Quincy Street • Rapid City, SD 57701 • [www.ktllp.com](http://www.ktllp.com)

# COLONIAL PINE HILLS SANITARY DISTRICT

## TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor's Report .....	1-2
Management's Discussion and Analysis .....	3-5
<i>Financial Statements:</i>	
Balance Sheets .....	6
Statements of Revenues, Expenses, and Changes in Net Position .....	7
Statements of Cash Flows .....	8
Notes to Financial Statements .....	9-13
<i>Other Reports and Schedules:</i>	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	14-15
Schedule of Findings, Corrective Action Plans, and Prior Year Findings .....	16-17



# Ketel Thorstenson, LLP

Certified Public Accountants/Business & Personal Consultants

810 Quincy Street  
P.O. Box 3140, Rapid City, South Dakota 57709  
Telephone (605) 342-5630 • e-mail: [ktllp@ktllp.com](mailto:ktllp@ktllp.com)

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Colonial Pine Hills Sanitary District  
Rapid City, South Dakota

### **Report on the Financial Statements**

We have audited the accompanying financial statements of **COLONIAL PINE HILLS SANITARY DISTRICT** (the District), which comprise the balance sheets as of December 31, 2013 and 2012, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **COLONIAL PINE HILLS SANITARY DISTRICT** as of December 31, 2013 and 2012, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Report on Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated July 15, 2014 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



KETEL THORSTENSON, LLP  
Certified Public Accountants

July 15, 2014

## COLONIAL PINE HILLS SANITARY DISTRICT

### MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2013 AND 2012

This section of Colonial Pine Hills Sanitary District's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal years ended on December 31, 2013 and 2012. Please read it in conjunction with the District's financial statements, which follow this section.

### FINANCIAL HIGHLIGHTS

- The District's net position increased in 2013 by \$117,999 over 2012 after increasing by \$118,788 from 2011. The increase in both years was primarily due to property tax revenue and continued paydown of long term debt. Current assets increased \$142,464, or 41% percent from 2012 to 2013 as operating expenses decreased \$23,534 for the same period.
- Operating revenue decreased by \$36,756 from 2012 to 2013 and increased \$47,139 from 2011 to 2012. The decrease for 2013 was, in part, due to decreased water sales because of cool, wet weather. The increase for 2012 was due primarily to hot, dry weather. Variations in water sales is directly proportional to the type of weather; if its dry we sell more water, if wet we sell less. Most other revenue is constant.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts – management's discussion and analysis (this section) and the basic financial statements, including related notes. The basic financial statements offer short- and long-term financial information about the District's activities.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

The District operates similar to a private business. The required financial statements include balance sheets, statements of revenue, expenses, and changes in net position, and the statements of cash flows. The District applies the accrual basis of accounting and an economic resources measurement focus. Inflows and outflows include all revenues and expenses during the year, regardless of when cash is received or paid. (The Financial Analysis section of the management's discussion and analysis explains the structure and contents of the statements.)

### FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

#### *Balance Sheet*

The District's net position changed as follows:

	2013	2012	2011
Current Assets	\$ 489,961	\$ 347,497	\$ 180,385
Capital Assets	2,570,818	2,657,832	2,767,323
<b>Total Assets</b>	<b>\$ 3,060,779</b>	<b>\$ 3,005,329</b>	<b>\$ 2,947,708</b>
Long-Term Debt Outstanding	\$ 1,015,306	\$ 1,076,422	\$ 1,135,586
Other Liabilities	49,324	50,757	46,750
<b>Total Liabilities</b>	<b>\$ 1,064,630</b>	<b>\$ 1,127,179</b>	<b>\$ 1,182,336</b>
Net Position:			
Net Investment in Capital Assets	\$ 1,555,512	\$ 1,581,410	\$ 1,631,737
Unrestricted	440,637	296,740	133,635
<b>Total Net Position</b>	<b>\$ 1,996,149</b>	<b>\$ 1,878,150</b>	<b>\$ 1,765,372</b>
Beginning Net Position As Previously Stated	\$ 1,878,150	\$ 1,765,372	\$ 1,839,744
Prior Period Adjustment (Note 5)	-	(6,010)	-
Change in Net Position	117,999	118,788	(74,372)
Percentage of Change in Net Position	6.28%	6.73%	-4.04%

COLONIAL PINE HILLS SANITARY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

DECEMBER 31, 2013 AND 2012

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

The balance sheet reports all financial and capital resources. The statement presents the assets and liabilities in order of relative liquidity. The liabilities with maturities greater than one year are reported in two components – the amount due within one year and the amount due in more than one year. The long-term liabilities of the District have been reported in this manner on the Balance Sheet. The difference between the District's assets and liabilities is its net position.

*Statement of Revenues, Expenses, and Changes in Net Position*

	2013	2012	2011
Operating Revenues	\$ 337,446	\$ 374,202	\$ 327,063
Non-Operating Revenue	120,893	110,412	1,341
Total Revenue	458,339	484,614	328,404
Operating Expenses	(306,928)	(330,462)	(363,758)
Non-Operating Expense	(33,412)	(35,364)	(39,018)
Total Expenses	(340,340)	(365,826)	(402,776)
Change in Net Position	\$ 117,999	\$ 118,788	\$ (74,372)
Net Position -- End of Year As Previously Stated	\$ 1,996,149	\$ 1,884,160	\$ 1,765,372
Prior Period Adjustment (Note 5)	-	(6,010)	-
Net Position -- End of Year	\$ 1,996,149	\$ 1,878,150	\$ 1,765,372

Operating revenue from 2012 to 2013 decreased \$36,756 and increased \$47,139 from 2011 to 2012. The decrease for 2013 was, in part, due to decreased water sales because of cool, wet weather. The increase for 2012 was due primarily to hot, dry weather. Variations in water sales is directly proportional to the type of weather; if it's dry we sell more water, if wet we sell less. Most other revenue is constant. Operating expenses decreased \$23,534 from 2012 to 2013 and decreased \$33,296 from 2011 to 2012 due primarily to a reduction in maintenance expenses. The District experienced fewer repairs for faulty equipment, leaks, etc. in both years, although there was an increase in payroll expenses in 2012 with the hiring of an administrative assistant, increased electrical and chemical expenses but a decrease in professional fees since we did not perform an audit in 2013.

The Statement of Revenues, Expenses, and Changes in Net Position presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or non-operating. The utilization of capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

CAPITAL ASSET ADMINISTRATION

During 2012-2013, the District made several capital improvements. All together capital investments totaled \$67,455 for the period.

	2013	2012	2011
<i>Capital Assets Being Depreciated</i>			
Buildings	\$ 49,356	\$ 49,356	\$ 49,356
Machinery and Equipment	175,733	166,179	159,183
Well Systems	3,338,443	3,338,443	3,338,443
	3,563,532	3,553,978	3,546,982
<i>Less Accumulated Depreciation</i>	1,208,798	1,077,616	944,838
Net Capital Assets Being Depreciated	\$ 2,354,734	\$ 2,476,362	\$ 2,602,144

## COLONIAL PINE HILLS SANITARY DISTRICT

### MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED) DECEMBER 31, 2013 AND 2012

#### CAPITAL ASSET ADMINISTRATION (CONTINUED)

##### *Capital Assets Not Being Depreciated*

Land	\$ 111,982	\$ 111,982	\$ 111,982
Construction in Progress	104,102	69,488	53,197
Total Capital Assets Not Being Depreciated	\$ 216,084	\$ 181,470	\$ 165,179

The 2012-2013 major capital asset additions included:

- Engineering for a new filtration system

Fiscal years 2010 and 2011 laid the framework for a new filtration system at the Nonanna well. Engineering and other miscellaneous costs were incurred for the project. Funding will include a \$120,000 property tax assessment per year for 10 years and a \$705,000 State Revolving Loan, which was obtained during 2012. The total estimated cost of completion is approximately \$1,000,000. The District currently plans on starting construction on this project in the summer of 2014.

#### LONG-TERM DEBT

During 2013 and 2012, the District continued making loan payments on State Revolving Fund loans that had been obtained in prior years for various construction projects. The following is a summary of the changes in long-term debt:

Balance -- December 31, 2011	\$ 1,135,586
Principal Repayments	(59,164)
Balance -- December 31, 2012	1,076,422
Principal Repayments	(61,116)
Balance -- December 31, 2013	\$ 1,015,306

#### ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's current economic position is good. Cash assets include **\$237,967** available for operations and debt reduction. Another **\$220,000** at December 31, 2013, is set aside by the board for the Croyle II/Nonnana Wells projects. This project funding is augmented by a State Revolving Fund loan and future property tax assessment receipts. Repayment for this new debt will be made with property tax receipts. Current debt will still be repaid using water sales receipts. Additionally, we have cash assets on hand that can be used in an emergency situation. Our operating expenses are paid using water sale and fee revenue.

Although our Long Range Strategic Plan contains several projects that will improve water quality, pressure, and water quantity, as well as reduce system maintenance, all of those are pending the completion of the current project to filter the Nonanna Well water within a micro-filtration water treatment plant located within the Croyle II well house. Once this project is on-line we will begin to collect data as to its operational cost; chemicals, electrical, personnel, etc. so we can predict these costs and incorporate them into our long range plans. Once this is completed we will once again begin to prioritize other projects as funds become available.

#### CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Colonial Pine Hills Sanitary District, 8251 Dunsmore Road, Rapid City, SD 57702.

COLONIAL PINE HILLS SANITARY DISTRICT

BALANCE SHEETS  
DECEMBER 31, 2013 AND 2012

ASSETS	2013	2012
<b>Current Assets</b>		
Cash and Cash Equivalents	\$ 457,967	\$ 318,029
Accounts Receivable and Unbilled Receivables	30,347	27,821
Well Supplies	1,647	1,647
<b>Total Current Assets</b>	<b>489,961</b>	<b>347,497</b>
<b>Capital Assets Being Depreciated (Note 3)</b>		
Buildings	49,356	49,356
Machinery and Equipment	175,733	166,179
Well Systems	3,338,443	3,338,443
	3,563,532	3,553,978
Less Accumulated Depreciation	1,208,798	1,077,616
<b>Net Capital Assets Being Depreciated</b>	<b>2,354,734</b>	<b>2,476,362</b>
<b>Capital Assets Not Being Depreciated (Note 3)</b>		
Land	111,982	111,982
Construction in Progress	104,102	69,488
<b>Total Capital Assets Not Being Depreciated</b>	<b>216,084</b>	<b>181,470</b>
<b>TOTAL ASSETS</b>	<b>\$ 3,060,779</b>	<b>\$ 3,005,329</b>
<b>LIABILITIES AND NET POSITION</b>		
<b>Current Liabilities</b>		
Current Maturities of Long-Term Debt (Note 4)	\$ 62,839	\$ 60,826
Accounts Payable	9,875	11,901
Accrued Expenses	5,700	5,197
Meter Deposits	33,749	33,659
<b>Total Current Liabilities</b>	<b>112,163</b>	<b>111,583</b>
<b>Long-Term Debt, Net of Current Maturities (Note 4)</b>	<b>952,467</b>	<b>1,015,596</b>
<b>Commitment (Note 4)</b>		
Net Investment in Capital Assets	1,555,512	1,581,410
Unrestricted	440,637	296,740
	1,996,149	1,878,150
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 3,060,779</b>	<b>\$ 3,005,329</b>

The accompanying notes are an integral part of these statements.

COLONIAL PINE HILLS SANITARY DISTRICT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
<b>Revenue</b>		
Water Sales (Note 4)	\$ 319,301	\$ 353,484
Septic Sales	14,852	15,030
Other Income	3,293	5,688
<b>Total Revenue</b>	<b>337,446</b>	<b>374,202</b>
<b>Operating Expenses</b>		
Depreciation	131,182	132,778
Salaries	67,801	56,391
Electric Charges	39,831	37,703
Repairs and Maintenance	11,439	18,686
Chemicals	9,523	8,560
Office Expenses	8,269	8,813
Insurance	7,785	6,454
Telephone	7,753	7,510
Payroll Taxes	5,413	4,321
Tools and Equipment	4,822	2,592
Professional Fees	4,161	31,245
Trustee Fees	3,100	3,180
Travel and Transportation	2,090	2,100
Printing and Publications	1,647	2,786
Water Testing	1,188	5,719
Dues and Subscriptions	730	730
Miscellaneous	194	894
<b>Total Operating Expenses</b>	<b>306,928</b>	<b>330,462</b>
<b>Operating Income</b>	<b>30,518</b>	<b>43,740</b>
<b>Non-Operating Revenue (Expense)</b>		
Property Taxes (Note 6)	119,706	109,416
Interest Income	1,187	996
Interest Expense	(33,412)	(35,364)
	<b>87,481</b>	<b>75,048</b>
<b>Change in Net Position</b>	<b>117,999</b>	<b>118,788</b>
<b>Net Position -- Beginning of Year</b>	<b>1,878,150</b>	<b>1,765,372</b>
<b>Net Position -- End of Year, As Previously Stated</b>	<b>1,996,149</b>	<b>1,884,160</b>
Prior Period Adjustment (Note 5)	-	(6,010)
<b>Net Position -- End of Year</b>	<b>\$ 1,996,149</b>	<b>\$ 1,878,150</b>

The accompanying notes are an integral part of these statements.

COLONIAL PINE HILLS SANITARY DISTRICT

STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
<b>Cash Flows From Operating Activities</b>		
Receipts from Customers	\$ 335,010	\$ 373,494
Payments to Suppliers	(107,286)	(142,351)
Payments to Employees	(67,801)	(56,391)
<b>Net Cash Flows Provided by Operating Activities</b>	<b>159,923</b>	<b>174,752</b>
<b>Cash Flows Provided by Noncapital Financing Activities</b>		
Property Taxes	119,706	109,416
<b>Cash Flows From Capital and Related Financing Activities</b>		
Purchases of Capital Assets	(46,350)	(19,472)
Repayments on Long-Term Debt	(61,116)	(59,164)
Interest Expense	(33,412)	(35,364)
<b>Net Cash Flows Used in Capital and Related Financing Activities</b>	<b>(140,878)</b>	<b>(114,000)</b>
<b>Cash Flows From Investing Activities</b>		
Interest Received	1,187	996
<b>Net Increase in Cash and Cash Equivalents</b>	<b>139,938</b>	<b>171,164</b>
<b>Cash and Cash Equivalents -- Beginning of Year</b>	<b>318,029</b>	<b>146,865</b>
<b>Cash and Cash Equivalents -- End of Year</b>	<b>\$ 457,967</b>	<b>\$ 318,029</b>
<b>Reconciliation of Operating Income to Net Cash Flows</b>		
<b>Provided by Operating Activities</b>		
Operating Income	\$ 30,518	\$ 43,740
<i>Adjustments to Reconcile Operating Income to Net Cash Flows</i>		
<i>Provided by Operating Activities:</i>		
Depreciation	131,182	132,778
<i>Changes to Working Capital Increasing (Decreasing) Cash:</i>		
Accounts Receivable and Unbilled Receivables	(2,526)	(1,958)
Accounts Payable	156	(2,111)
Accrued Expenses	503	1,053
Meter Deposits	90	1,250
<b>Net Cash Flows Provided by Operating Activities</b>	<b>\$ 159,923</b>	<b>\$ 174,752</b>
<b>Supplemental Disclosures of Non Cash Activities</b>		
Capital Asset Purchases Included in Accounts Payable	\$ 4,726	\$ 6,908

The accompanying notes are an integral part of these statements.

## **COLONIAL PINE HILLS SANITARY DISTRICT**

### **NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012**

#### **(1) Nature of Activities and Summary of Significant Accounting Policies**

##### **Operations**

Colonial Pine Hills Sanitary District (the District) provides water to the residents of the Countryside South (CSS) and Whispering Pines (WP) subdivisions in Rapid City, South Dakota. The District collects monthly water payments and maintains the water systems. The District also charges a monthly septic administration fee for maintenance of the sewer system.

##### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts and disclosures reported in the financial statements. Actual results could differ from those estimates.

##### **Method of Accounting**

The District uses the accrual method of accounting. Under the accrual basis of accounting, revenues and related assets are recorded when earned (usually when the right to receive cash vests); and, expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests). The accounting policies of the District conform to generally accepted accounting principles applicable to enterprise funds of a government entity. In the Statements of Revenues, Expenses and Changes in Net Position, revenue and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, non-capital financing activities, or investing activities are reported as components of operating revenues or expenses.

##### **Capital Assets**

Capital assets are stated at cost. Donated property and equipment (Countryside South Water System) is stated at the estimated fair market value at the date of the donation. The District capitalizes assets purchased over \$500 and expenses all others. Depreciation expense is computed using the straight-line method over the following estimated useful lives:

Buildings	20-28 Years
Machinery and Equipment	5-15 Years
Well Systems	8-75 Years

##### **Federal Income Tax**

Under South Dakota Codified Law, the District is considered to be a sanitary district form of local government, and therefore is not obligated to pay federal income tax.

##### **Cash and Cash Equivalents**

The District considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. As of December 31, 2013 and 2012, the District's cash and cash equivalents consisted only of checking, savings, certificates of deposit and money market accounts.

##### **Deposits and Investments**

All of the District's accounts are insured or collateralized in the District's name. The District does not have an investment policy that would limit credit risk, custodial credit risk, and interest rate risk. Investments consist of certificates of deposit and are classified as cash and cash equivalents on the balance sheet. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below.

## **COLONIAL PINE HILLS SANITARY DISTRICT**

### **NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2013 AND 2012**

#### **(1) Nature of Activities and Summary of Significant Accounting Policies (Continued)**

##### **Deposits and Investments (Continued)**

Deposits - The District's deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15, 13-16-15.1 and 13-16-18.1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Investments — In General, SDCL 4-5-6 permits District funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly including, without limitation, United States treasury bills, notes, bonds, and other obligations issued or directly or indirectly guaranteed by the United States government, or otherwise directly or indirectly backed by the full faith and credit of the United States government; provided that, for other than permanent, trust, retirement, building, and depreciation reserve funds, such securities shall either mature within eighteen months from the date of purchase or be redeemable at the option of the holder within eighteen months from the date of purchase; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

##### **Accounts Receivable**

Accounts receivable are recorded at the time revenue is earned and are billed monthly. No interest is accrued on accounts receivable. Receivables older than 30 days are considered delinquent. Management considers all receivables to be fully collectible. Accordingly, no allowance for doubtful accounts is recorded at December 31, 2013 or 2012.

##### **Application of Net Position**

It is the District's policy to first use restricted net position, prior to the use of unrestricted net position, when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

##### **Well Supplies**

Well supplies consist of sleeves, pipe, extensions, and wire. The well supplies are stated at the lower of cost or market on the first-in, first out basis.

#### **(2) Risk Management**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District managed its risks by purchasing from a commercial insurance carrier liability and property insurance for risks related to torts; theft, damage, or destruction of property; and errors and omissions of public officials, as well as liability insurance for workmen's compensation. The District provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the state of South Dakota.

COLONIAL PINE HILLS SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2013 AND 2012

(3) Changes in Capital Assets

Changes in capital assets were as follows during the year ended December 31, 2012:

	Balance December 31, 2011	Additions	Disposals	Balance December 31, 2012
<i>Capital Assets Being Depreciated</i>				
Buildings	\$ 49,356	\$ -	\$ -	\$ 49,356
Machinery and Equipment	159,183	6,996	-	166,179
Well Systems	3,338,443	-	-	3,338,443
	3,546,982	6,996	-	3,553,978
<i>Less Accumulated Depreciation</i>	944,838	132,778	-	1,077,616
<b>Net Capital Assets Being Depreciated</b>	<b>\$ 2,602,144</b>	<b>\$ (125,782)</b>	<b>\$ -</b>	<b>\$ 2,476,362</b>
<i>Capital Assets Not Being Depreciated</i>				
Land	\$ 111,982	\$ -	\$ -	\$ 111,982
Construction in Progress	53,197	16,291	-	69,488
<b>Total Capital Assets Not Being Depreciated</b>	<b>\$ 165,179</b>	<b>\$ 16,291</b>	<b>\$ -</b>	<b>\$ 181,470</b>

Changes in capital assets were as follows during the year ended December 31, 2013:

	Balance December 31, 2012	Additions	Disposals	Balance December 31, 2013
<i>Capital Assets Being Depreciated</i>				
Buildings	\$ 49,356	\$ -	\$ -	\$ 49,356
Machinery and Equipment	166,179	9,554	-	175,733
Well Systems	3,338,443	-	-	3,338,443
	3,553,978	9,554	-	3,563,532
<i>Less Accumulated Depreciation</i>	1,077,616	131,182	-	1,208,798
<b>Net Capital Assets Being Depreciated</b>	<b>\$ 2,476,362</b>	<b>\$ (121,628)</b>	<b>\$ -</b>	<b>\$ 2,354,734</b>
<i>Capital Assets Not Being Depreciated</i>				
Land	\$ 111,982	\$ -	\$ -	\$ 111,982
Construction in Progress	69,488	34,614	-	104,102
<b>Total Capital Assets Not Being Depreciated</b>	<b>\$ 181,470</b>	<b>\$ 34,614</b>	<b>\$ -</b>	<b>\$ 216,084</b>

At December 31, 2013 and 2012, construction in progress includes preliminary costs for equipment and engineering fees related to a new filtration system. The estimated total cost of the project is approximately \$1,000,000. No work was done on the project in 2013 or 2012, other than engineering costs. Management plans on completing the project in the future using SRF funds and cash from property tax assessments.

COLONIAL PINE HILLS SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2013 AND 2012

(4) Long-Term Debt

The following is a summary of the changes in long term debt:

Balance -- December 31, 2011	\$	1,135,586
Principal Repayments		(59,164)
Balance -- December 31, 2012		1,076,422
Principal Repayments		(61,116)
Balance -- December 31, 2013	\$	<b>1,015,306</b>

Long-term debt consists of the following at December 31:

	2013	2012
State Revolving Fund Loan, due in quarterly installments of \$11,071 including interest accruing at 3.5 percent, maturing in 2022, secured by a pledge of net revenue.	\$ 340,615	\$ 372,281
State Revolving Fund Loan, due in quarterly installments of \$12,561 including interest accruing at 3.0 percent, maturing in 2031, secured by a pledge of net revenue.	674,691	704,141
	<b>1,015,306</b>	1,076,422
Less: Current Portion	62,839	60,826
	<b>\$ 952,467</b>	\$ 1,015,596

The annual requirements to amortize all debt outstanding are as follows:

	Principal	Interest
2014	\$ 62,839	\$ 31,690
2015	64,919	29,610
2016	67,068	27,460
2017	69,289	25,239
2018	71,584	22,944
2019-2023	350,211	78,046
2024-2028	215,546	35,681
2029-2033	113,850	5,109
	<b>\$ 1,015,306</b>	<b>\$ 255,779</b>

The District has pledged future revenues associated with its debt agreements. The debt funded capital projects and improvements. The current principal balance plus interest at the stated applicable rate over the life of the debt represents the amount of future revenue pledged. Pledged revenues associated with the debt issue have been pledged through the maturity dates listed above. The 2013 principal and interest on the debt was \$94,528 while the pledged revenue totaled \$319,301. The debt agreements state net revenues available for debt service must be equal to or greater than 110 percent of its systems debt service. At December 31, 2013 and 2012, the District is in compliance with this debt covenant.

An election to authorize General Obligation Bonds was held on May 29, 2012 and passed by an 84 percent majority. This election authorized the District to proceed with its State Revolving Fund loan application for \$705,000 that was subsequently approved by the State Water Board on June 28, 2012. The loan will be used to construct a micro-filtration treatment plant, and property tax assessment will be used to repay the loan.

**COLONIAL PINE HILLS SANITARY DISTRICT**

**NOTES TO FINANCIAL STATEMENTS (CONCLUDED)  
DECEMBER 31, 2013 AND 2012**

**(5) Prior Period Adjustment**

In 2012, the District implemented a new accounting standard issued by the Governmental Accounting Standards Board, GASB 65, which requires bond issuance costs to be recognized as an expense in the period incurred. The implementation of this standard resulted in a prior period adjustment to write-off bond issuance costs previously capitalized as deferred charges totaling \$6,556 with accumulated amortization of \$546 at December 31, 2011. This result was a net decrease to net position of \$6,010.

**(6) Property Tax**

Property taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are levied on or before October 1 and are payable in two installments on or before April 30 and October 31 of the following year. The County bills and collects the District's taxes and remits them to the District. State statute allows the tax rates to be raised by special election of the voters.

As required by Governmental Accounting Standards Board (GASB) Statement No. 34, property taxes are recorded as receivables in the year that the enforceable legal claim to property taxes arises or when the resources are received, whichever occurs first. Property tax revenue is recognized in the year for which the taxes are levied. Accordingly, taxes levied in October 2012 and October 2013, have not been recorded as a receivable or revenue in the accompanying Balance Sheets and Statements of Revenue, Expenses and Changes in Net Position as the legal claim to the assets and resources were not received until the 2013 and 2014 fiscal years, respectively.

## OTHER REPORTS AND SCHEDULES



## Ketel Thorstenson, LLP

Certified Public Accountants/Business & Personal Consultants

810 Quincy Street  
P.O. Box 3140, Rapid City, South Dakota 57709  
Telephone (605) 342-5630 • e-mail: [ktllp@ktllp.com](mailto:ktllp@ktllp.com)

### INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors  
Colonial Pine Hills Sanitary District  
Rapid City, South Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of **Colonial Pine Hills Sanitary District** (the District) as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated July 15, 2014.

#### **Internal Control over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Auditor's Comments, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings, Corrective Action Plans and Prior Year Findings as #1, #2, and #3 to be material weaknesses.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests resulted in no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

#### **District's Response to Findings**

The District's response to the findings identified in our audit is described in the accompanying Schedule of Findings, Corrective Action Plans, and Prior Year Findings. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Colonial Pine Hills Sanitary District

---

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by SD Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.



KETEL THORSTENSON, LLP  
Certified Public Accountants

July 15, 2014

## COLONIAL PINE HILLS SANITARY DISTRICT

### SCHEDULE OF FINDINGS, CORRECTIVE ACTION PLANS, AND PRIOR YEAR FINDINGS DECEMBER 31, 2013 AND 2012

#### Material Weaknesses:

##### 1. Financial Statement Preparation

**Condition/Cause:** As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Ultimately, it is management's responsibility to provide for the preparation of the District's statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. From a practical standpoint, we do both for the District at the same time in connection with our audit. This is not unusual for us to do this with organizations of your size.

**Criteria and Effect:** This deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by the District's management.

**Recommendation:** As in prior years, we have instructed management to review a draft of the auditor prepared financials in detail for their accuracy. We have answered any questions they might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification and disclosure in the District's statements. We are satisfied that the appropriate steps have been taken to provide the District with the completed financial statements. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

**Corrective Action Plan:** At this time, the District will accept the degree of risk that is associated with this condition. For future audits, we will continue to monitor the financial statement preparation and determine if any modification can be done to the procedure. The District Manager is responsible for the corrective action plan for this finding.

##### 2. Internal Control over Significant Accounts

**Condition/Cause:** During the course of our engagement, we proposed material audit adjustments that resulted in a \$132,258 and \$117,233 decrease in reported net income for 2013 and 2012, respectively. Adjustments included recording accrued payroll, accounts payable, accrued interest, fixed asset activity, and recording receivables and sales in the correct period.

**Criteria and Effect:** These adjustments were not identified as a result of the District's existing internal controls, and therefore, could have resulted in a material misstatement of the District's financial statements.

**Recommendation:** We recommend changes in operations be continually reviewed for potential changes in accounting so that the appropriate entries can be made throughout the year.

**Corrective Action Plan:** At this time, the District will accept the degree of risk that is associated with this condition. For future audits, we will continue to monitor the financial statement preparation process and determine if any modification can be done to the procedure. The District Manager is responsible for the corrective action plan for this finding.

**COLONIAL PINE HILLS SANITARY DISTRICT**

**SCHEDULE OF FINDINGS, CORRECTIVE ACTION PLANS, AND PRIOR YEAR FINDINGS  
(CONTINUED)  
DECEMBER 31, 2013 AND 2012**

**Material Weaknesses (Continued):**

**3. Lack of Segregation of Duties**

**Condition/Cause:** The District has a general lack of segregation of duties due to the limited number of staff.

**Criteria and Effect:** As a result of the inadequate segregation of duties of the District, this deficiency could result in a material misstatement to the financial statements would not be prevented or detected by the District's management.

**Recommendation:** This is not an uncommon problem in an organization of this size. A proper system of segregation of duties and functions assures adequate internal control over the safeguarding of assets and the reliability of financial records and reporting. Without proper segregation of duties, the likelihood of detection is reduced. We recommend the board designate an individual, the President or the Treasurer, to review the general ledger detail and bank statements, to include the cancelled check images, on a monthly basis. We recommend the District strive for as much segregation of duties as possible with the limited number of personnel.

**Corrective Action Plan:** At this time, the District is aware of the segregation of duties limitations and will evaluate internal controls from time to time as changes in personnel or procedures occur. The District Manager is responsible for the corrective action plan for this finding.

**Prior Year Audit Findings:**

All of the above findings are repeated from the December 31, 2011 and 2010, Schedule of Significant Deficiencies. Due to feasibility, these deficiencies have not been corrected.